Vendor: Test Prep

Exam Code: FINANCIAL-ACCOUNTING-AND-REPORTING

Exam Name: Certified Public Accountant (Financial Accounting & Reporting)

Version: Demo

QUESTION 1

Which of the following describes how comprehensive income should be reported?

A. Must be reported in a separate statement, as part of a complete set of financial statements.

B. Should not be reported in the financial statements but should only be disclosed in the footnotes.

C. May be reported in a separate statement, in a combined statement of income and comprehensive income, or within a statement of stockholders\\' equity.

D. May be reported in a combined statement of income and comprehensive income or disclosed within a statement of stockholders\\' equity; separate statements of comprehensive income are not permitted.

Correct Answer: C

Choice "c" is correct.

Comprehensive income must be presented in one of three formats:

1.

In a combined statement of income and comprehensive income;

2.

In a separate statement of comprehensive income that begins with net income; or

3.

In a statement of changes in equity.

Choices "a", "b", and "d" are incorrect, per the above.

Balance Sheet and Disclosures Overview

QUESTION 2

Advertising costs may be accrued or deferred to provide an appropriate expense in each period for: A. Option A

Interim financial reporting	*Year-end financial reporting*
Yes	No
Yes	Yes
No	No
No	Yes

B. Option B

C. Option C

D. Option D

Correct Answer: B

Choice "b" is correct. Yes - Yes.

Advertising costs may be accrued or deferred to provide an appropriate expense in each period for both

"interim" and "year-end" financial reporting.

QUESTION 3

On January 1, 20X1, Pell Corp. purchased a machine having an estimated useful life of 10 years and no salvage. The machine was depreciated by the double declining balance method for both financial statement and income tax reporting. On January 1, 20X6, Pell changed to the straight-line method for financial statement reporting but not for income tax reporting. Accumulated depreciation at December 31, 20X5, was $560,000. If the straight-line method had been used, the accumulated depreciation at December 31, 20X5, would have been $420,000. Pell\\'s enacted income tax rate for 20X6 and thereafter is 30%. The amount shown in the 20X6 income statement for the cumulative effect of changing to the straight-line method should be:

A. $98,000 debit.

B. $98,000 credit.

C. $140,000 credit.

D. $0.

Correct Answer: D

Choice "d" is correct. A change in the method of depreciation is now considered to be both a change in method and a change in estimate. These changes should be accounted for as changes in estimate and handled prospectively. The new depreciation method should be used as of the beginning of the year of change and should start with the current book value of the underlying asset. No retroactive or retrospective calculations should be made, and no adjustment should be made to retained earnings. And, certainly, the cumulative effect should not be reflected on the income statement any more. Choices "a", "b", and "c" are incorrect, per the above Explanation: .

QUESTION 4

In open market transactions, Gold Corp. simultaneously sold its long-term investment in Iron Corp. bonds and purchased its own outstanding bonds. The broker remitted the net cash from the two transactions. Gold\\'s gain on the purchase of its own bonds exceeded its loss on the sale of the Iron bonds. Assume the transaction to purchase its own outstanding bonds is unusual in nature and has occurred infrequently. Gold should report the:

A. Net effect of the two transactions as an extraordinary gain.

B. Net effect of the two transactions in income before extraordinary items.

C. Effect of its own bond transaction gain in income before extraordinary items, and report the Iron bond transaction as an extraordinary loss.

D. Effect of its own bond transaction as an extraordinary gain, and report the Iron bond transaction loss in income before extraordinary items.

Correct Answer: D

Choice "d" is correct, these are two separate transactions because Gold Corp. (1) sold Iron Corp. bonds (an investment) for a loss, and, (2) bought back its own (Gold) Corp. bonds (a debt) for a gain. This is not a "refinancing" (where one would sell new bond debt to buy back old bond debt outstanding). The gain from the purchase of its own bonds is an "extraordinary gain" because it is both unusual in nature and infrequently occurring (per APB Opinion No. 30 and SFAS No. 145). The Iron Corp. transaction is a loss in "income before extraordinary items." Choices "a" and "b" are incorrect. The two transactions are separate and cannot be netted. Choice "c" is incorrect. Just the opposite. The sale of the investment is a loss in "income before extraordinary items," while the purchase of its bond debt is an "extraordinary gain" according to the provisions of APB Opinion No. 30.

QUESTION 5

On June 30, 1991, Mill Corp. incurred a $100,000 net loss from disposal of a component of a business. Also, on June 30, 1991, Mill paid $40,000 for property taxes assessed for the calendar year 1991. What amount of the foregoing items should be included in the determination of Mill\\'s net income or loss for the six-month interim period ended June 30, 1991?

A. $140,000

B. $120,000

C. $90,000

D. $70,000

Correct Answer: B

Choice "b" is correct. $120,000 expense included in the determination of net income or loss for the sixmonth interim period ended June 30, 1991.

Rules:	
The net loss on disposal of a component is recorded in the interim period incurred	$100,000
Property taxes should be allocated over the periods ($40,000 ÷ 2)	20,000
Expenses for six-month interim period	$120,000

QUESTION 6

Income tax-basis financial statements differ from those prepared under GAAP in that income tax-basis financial statements:

A. Do not include nontaxable revenues and nondeductible expenses in determining income.

B. Include detailed information about current and deferred income tax liabilities.

C. Contain no disclosures about capital and operating lease transactions.

D. Recognize certain revenues and expenses in different reporting periods.

Correct Answer: D

Choice "d" is correct. Income tax-basis financial statements recognize events when taxable income or deductible expenses are recognized on the entity\\'s tax return. Non-taxable income and non-deductible expenses are shown on the financial statement and included in the determination of income (and become M-1 adjustments to arrive at taxable income). Please Note: This question appeared in the releases for 1999 in FARE; however, it may also apply to OCBOA financial statements discussed in the Auditing textbook. The question did not apply well to any FARE CSO line item, so we included it here so that you could read the Explanation: and learn from it.

QUESTION 7

Foy Corp. failed to accrue warranty costs of $50,000 in its December 31, 1992, financial statements. In addition, a $30,000 change from straight-line to accelerated depreciation was made at the beginning of 1993. Both the $50,000 and the $30,000 are net of related income taxes. What amount should Foy report as prior period adjustments in 1993?

A. $0

B. $30,000

C. $50,000

D. $80,000

Correct Answer: C

Choice "c" is correct. $50,000. The cumulative effect of a change in accounting principle is now shown on the retained earnings statement as an adjustment to the beginning balance of retained earnings, assuming that the cumulative effect can be calculated. An exception is made however, for a change in depreciation method, since a change in depreciation method is no longer considered to be a change in accounting principle. A change in depreciation method is now considered to be both a change in method and a change in estimate. These changes should now be accounted for as a change in estimate and handled prospectively. The new depreciation method should be used as of the beginning of the year of change and should start with the current book value of the underlying asset. No retroactive or retrospective calculations should be made, and no adjustment should be made to retained earnings. The correction of the failure to accrue warranty costs is treated as a correction of an error and thus as a prior period adjustment. Choices "a", "b", and "d" are incorrect, per the above Explanation: .

QUESTION 8

During 20X5, Dale Corp. made the following accounting changes:

Method used in 20X4	Method used in 20X5	After-tax effect
Sum-of-the-years' digits depreciation	Straight-line depreciation	$30,000
Last-in, first-out for inventory valuation	First-in, first-out for inventory valuation	98,000

What amount should be shown in the 20X5 retained earnings statement as an adjustment to the beginning balance?

A. $0

B. $30,000

C. $98,000

D. $128,000

Correct Answer: C

Choice "c" is correct. $98,000. The cumulative effect of a change in accounting principle is now shown on the retained earnings statement as an adjustment to the beginning balance of retained earnings, assuming that the cumulative effect can be calculated. A change from LIFO to FIFO for inventory valuation (costing) is a change in accounting principle. An exception is made however, for a change in depreciation method, since a change in depreciation method is no longer considered to be a change in accounting principle. A change in depreciation method is now considered to be both a change in principle and a change in estimate. These changes should now be accounted for as a change in estimate and handled prospectively. The new depreciation method should be used as of the beginning of the year of change and should start with the current book value of the underlying asset. No retroactive or retrospective calculations should be made, and no adjustment should be made to retained earnings. Choices "a", "b", and "d" are incorrect, per the above Explanation: .

QUESTION 9

According to the FASB conceptual framework, which of the following relates to both relevance and reliability?

A. Comparability.

B. Feedback value.

C. Verifiability.

D. Timeliness.

Correct Answer: A

Choice "a" is correct. Comparability and consistency are secondary qualities of both relevance and

reliability. SFAC 2 para. 111-122 Choice "b" is incorrect. Feedback value is a key characteristic of

relevance only.

Choice "c" is incorrect. Verifiability is a key characteristic of reliability only.

Choice "d" is incorrect. Timeliness is a key characteristic of relevance only.

QUESTION 10

Which of the following should be disclosed in a summary of significant accounting policies?

I. Management\\'s intention to maintain or vary the dividend payout ratio.

II. Criteria for determining which investments are treated as cash equivalents.

III.

Composition of the sales order backlog by segment.

A.

I only.

B.

I and III.

C.

II only.

D.

II and III.

Correct Answer: C

Choice "c" is correct. II only. The criteria for determining which investments are treated as "cash equivalents" is a method of accounting policies that needs to be disclosed in the summary of significant accounting policies. Choice "a" is incorrect. Management\\'s intention to maintain or vary the "dividend payout ratio" is not an "accounting policy." Choices "b" and "d" are incorrect. Composition of the sales order backlog by segment is not an "accounting policy."

QUESTION 11

Envoy Co. manufactures and sells household products. Envoy experienced losses associated with its small appliance group. Operations and cash flows for this group can be clearly distinguished from the rest of Envoy\\'s operations. Envoy plans to sell the small appliance group with its operations. What is the earliest point at which Envoy should report the small appliance group as a discontinued operation?

A. When Envoy classifies it as held for sale.

B. When Envoy receives an offer for the segment.

C. When Envoy first sells any of the assets of the segment.

D. When Envoy sells the majority of the assets of the segment.

Correct Answer: A

Choice "a" is correct. The earliest period that a component of an entity can be reported in discontinued operations is when the component meets the following "held for sale" criteria:

1.

Management commits to a plan to sell the component.

2.

The component is available for immediate sale in its present condition.

3.

An active program to locate a buyer has been initiated.

4.

The sale of the component is probable and the sale is expected to be completed within one year.

5.

The sale of the component is being actively marketed.

6.

It is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn. Choices "b", "c", and "d" are incorrect, per the Explanation: above.

QUESTION 12

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of $50,000,000, operating expenses of $47,000,000, and net income of $3,000,000. Operating expenses include payroll costs of $ 15,000,000. Grum\\'s combined identifiable assets of all industry segments at December 31, 1991, were $40,000,000. In its 1991 financial statements, Grum should disclose major customer data if sales to any single customer amount to at least:

A. $300,000

B. $1,500,000

C. $4,000,000

D. $5,000,000

Correct Answer: D

Choice "d" is correct. $5,000,000 (10% x $50,000,000 revenue). If revenue from a single external customer is 10% or more of total revenue, then the company should disclose this fact, the total amount of revenue from the customer, and the segment or segments reporting the revenues. The identity of the customer need not be disclosed.